Australian Shareholders' Association Limited
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Supporting independents against the bigger chains

Company/ASX Code	MTS / Metcash Limited
AGM date	Friday, 15 September 2023
Time and location	2.30 pm AEST, Lyceum Room, Wesley Conference Centre, 220 Pitt St, Sydney
Registry	Boardroom
Type of meeting	Physical, plus option to listen by phone
Monitor	Patricia Beal assisted by Elizabeth Fish
Pre AGM Meeting?	Yes, with Chair Peter Birtles, Margie Haseltine (Chair, People & Culture Committee) and Steve Ashe, (GM of Corporate Affairs & Investor Relations)

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for meeting

Remuneration: Short term incentive (STI) criteria are still complex, and for the CEO only 33% is deferred for this financial year (FY). After a review of STI this FY, this is foreshadowed to rise to 40% in FY24, and 50% in FY25. Long term incentive (LTI) is remains assessed over 3 years. We have suggested that a review of LTI be conducted this FY, with a view to lengthening the duration of LTI to make it more consistent with other companies, and ASA guidelines.

AGM is physical only with audio via phone. There is no capacity to ask questions or vote at the time of the meeting other than physical attendance or by proxy. Questions can be raised by email prior to the meeting. We pointed out that this disadvantages those who cannot attend the physical meeting. Of course, running a hybrid meeting has extra costs which seems to be the main reason why MTS doesn't, but we hope the Board may consider this next year.

Proposed Voting Summary

No.	Resolution description	
2	Re-election of Mr Murray Jordan as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of equity grant to CEO Mr Douglas Jones	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

Metcash had another profitable year (underlying profit before tax (UPAT) up 4.6%), despite several key leaders being changed (see below). The business is divided into 3 pillars (Food, Hardware and Liquor), and all contributed to the record result. Both Hardware and Liquor had growing store numbers, all pillars upgraded some stores.

The Chairman told ASA, the company has no real idea why the share price has dropped significantly in the face of good results. Perhaps doomsayers are predicting harder times coming, but food sales are still required, and their “local” stores are preferred by their customers.

<u>Governance and culture</u>

The smallish Board was said to work well together, which the new Chairman values. New prospective members are reviewed for culture as well as specific skills. Hence there is a trend to recruit (both key management personnel (KMP), staff and Board) from overseas, specifically NZ or South Africa, where there are similar aggregations of independent retailers. Good internal candidates are also welcomed. They carry out regular reviews of the Board, internal or external (Aon) alternately; the matrix of skills is in their Governance Report. Notably, the previous Food CEO was said to be a very good leaver, introducing the incoming CEO and Food CEO to important franchisee customers.

<u>Financial performance</u>

The Food pillar group profit increased slightly this financial year. Extra stores were counterbalanced with shoppers tending to spend less on their food budget. The Hardware pillar increased more significantly, with acquisition of more stores, and both DIY and trade sales significantly increased. Liquor sales increased significantly, also. Trends in all pillars had an increased emphasis on customers buying locally.

The share price of MTS dropped during their FY, from $4.79 to $3.90, so the shareholder return for the year was, disappointingly, negative.

Dividends for the FY were 11.5c and 11c, above the prior year, a payout ratio of 70.6% of UPAT.

The dividend reinvestment plan (DRP) was re-introduced with 1% discount for the July dividend. Around 40% of shareholders participate in this scheme.

Project Horizon, the process of consolidation and replacement of technical infrastructure, is progressing in stages. Stage 1 has been extended from end of FY23 to the end of FY25. It is however showing early benefits already. The expected payoff period was said to be around 10 years.

With a new CFO starting next FY, the opportunity may be taken to review the **Auditor**. Ernst & Young has been the Auditor for 13 years; with this E&Y Partner for 4 years.

<u>Key events</u>

In FY22 an off-market buyback of $200m was announced.

<u>Key Board or senior management changes</u>

Peter Birtles appointed Board Chair 1/8/22 (on Board since 2019).

Robert Murray (previous Chair of Board) retired as Chair 31/7/22; from Board 31/8/22.

Mark Johnson joined Board as independent NED 1/8/22 and was elected at the 2022 AGM.

CEO, Doug Jones, is still fairly new, having joined 1/2/22, replacing the previous CEO on 11/3/22.

CEO Food Scott Marshall resigned (but served out the FY); new (internal) appointee is to start 1/5/23. Last year, Mr Marshall had been awarded a Retention Grant (vesting, subject to EBIT hurdles, in 3 annual tranches). Due to his resignation at the end of the company's FY, only the first tranche will vest.

ESG: MTS has set targets for net zero emissions by 2040, and 100% renewable energy by 2025. ESG is one of the criteria on which the STI payments to KMP are assessed.

The Board is conscious of health and safety, though the big improvement this FY (up 34%) is not typical. Most 'accidents' occur in warehouses (lifting, slips etc), and the trend towards bigger, more automated ones will assist this. A new Safety Officer has been appointed. With this item in the Board matrix scoring lowest (6/10 members competent), we hope to see an improvement next year.

Individual Food franchisees make their own decisions re marketing tobacco, and it is mentioned specifically in the results for Food. The margins are very low.

Liquor: Independent liquor stores in NT may follow their own opening policies (stricter than regulations).

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	259.0	245.4	239.0	(56.8)	192.8
UPAT ($m)	307.5	299.6	252.7	198.8	210.3
Share price ($)	3.90	4.79	3.55	2.49	2.87
Dividend (cents)	22.5	21.5	17.5	12.5	13.5
Simple TSR (%)	(14)	40.6	48.4	(8.9)	(16.5)
EPS (cents)	26.8	25.0	23.4	(6.2)	20.8
CEO total remuneration, actual ($m)	4.1*	6.01	5.25	3.21	3.67

<u>Summary</u>

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking) by the share price at the start of the year.

*CEO Total Rem received included a sign-on grant of $0.63m on meeting the EBIT hurdle, no LTI has yet been awarded.

Election or re-election of directors

Mr Jordan's qualifications are set out in the Notice of Meeting. He holds over 57,000 shares in MTS, aligning his interests with those of other shareholders. He will address the meeting.

Adoption of Remuneration Report

Given the increasing deferral percentage being applied to the STI payment, and the reception to our request for longer term for LTI to be considered, we shall again support the Remuneration report. See Appendix below for further detail.

Approval of equity grants to Managing Director/CEO

Mr Jones has done well on various measures during this FY, and the equity grants do not seem excessive.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY23	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.75	40%	1.75	30%
STI - Cash	0.82	19%	1.84	31%
STI - Equity	0.41	9%	0.92	15%
LTI	1.4	32%	1.4	24%
Total	4.38	100%	5.91	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Take home pay is disclosed at p 59 of the annual report.

Face value is used to allocate performance rights, being at the share price averaged over the last 20 business days at the end of the period.

Levels of remuneration are benchmarked against a 'comparable group' of around 20 companies. We would like more specific information about those companies.

STI was reviewed during this FY, and the decision foreshadowed to raise the proportion of STI of the CEO held for 1 year, next FY, from 33% to 40%, then to 50%, to align it more closely with similar companies.

We suggested that it would be a good time to also review LTI, with a view to increasing the time that these also were deferred, to longer than the current 3 years.

Given the improvements, and the reception to our request for longer term for LTI to be considered, we shall again support the Remuneration report.

While the negative 1 year 'simple TSR' is a definite concern to more short-term shareholders, the growth of the company, measured by revenue, EBIT, profits after tax, EPS and dividends have all increased. Metrics for the LTI do take account of TSR, but the company measures TSR longer term (3-year averages), which is more valid from a long-term perspective as a criterion for LTI for the company. The Absolute Total Shareholder Return outcome was 21% for the three years from FY21.